

BILL # HB 2821

SPONSOR: Burns, J.

PREPARED BY: Steve Schimpp

TITLE: accommodation schools; military reservations; board

STATUS: As Introduced

FISCAL ANALYSIS

Description

The bill would increase statutory “budget limits” for the Fort Huachuca Accommodation District retroactively to FY 2005, which would 1) make legal approximately \$10.0 million in federal impact aid spending that the district has made cumulatively above its existing budget limits through FY 2007 (plus an unknown amount for FY 2008) and 2) allow the district to legally spend all of its impact aid monies in the future. The bill also would delete language that requires the Arizona Department of Education (ADE) to deduct a portion of federal impact aid from the district’s Basic State Aid entitlement.

Estimated Impact

The bill would not have a state or local fiscal impact relative to current practice, as the Fort Huachuca Accommodation District currently is spending all of its federal impact aid monies and the Arizona Department of Education (ADE) does not currently deduct a portion of federal impact aid from the district’s annual Basic State Aid entitlement due to a federal law conflict.

Relative to current law (rather than current practice), the bill could be interpreted as foregoing a \$10+ million Basic State Aid savings that otherwise would occur over a 2-year period starting in FY 2009 due to a budget correction required by A.R.S. § 15-915. Federal law, however, may not permit the budget correction.

Analysis

The Fort Huachuca Accommodation District currently serves approximately 970 K-8 pupils who are children of military personnel serving at Fort Huachuca. The district operates as an “accommodation school” pursuant to A.R.S. § 15-101, as it serves pupils who do not reside within the boundaries of a school district. It does not have a tax base (federal property is exempt from property taxation), so cannot generate revenues from local property taxes. The district, however, receives approximately \$8.0 million in federal funding annually, mostly in the form of “federal impact aid.” Federal impact aid is provided by the U. S. Government to school districts that have high proportions of “federally connected” children, such as children associated with a federal military installation or Indian reservation.

Potential Budget Correction

Federal law allows impact aid to be spent on either operating or capital expenses. “Budget limits” currently prescribed in Arizona law, however, do not include provisions allowing an accommodation school that receives federal impact aid to spend all of those monies. The bill would expand the list of items that an accommodation school may spend impact aid monies on in order to address this situation, retroactive to FY 2005. The new items would include 1) a general add-on factor pursuant to A.R.S. § 15-905(K), 2) a 5% increase in Revenue Control Limit (RCL) funding (similar to what school districts may spend for K-3 overrides), and 3) an option to accumulate funding for soft capital purchases and long-term capital projects. ADE roughly estimates that these 3 new provisions would allow the Fort Huachuca Accommodation District to spend an additional \$4.0 million in impact aid funding in FY 2008. The new retroactive provisions also would make legal approximately \$10 million in impact aid expenditures that the district made cumulatively above statutory spending limits between FY 2005 and FY 2007, plus an unknown amount for FY 2008.

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Under current law (A.R.S. § 15-915), ADE is required to reduce state aid to a school district in the next budget year (or over the next 2 budget years in case of hardship) in order to correct overspending by districts from prior years. This implies that ADE is required to reduce state aid to the Fort Huachuca Accommodation School by \$10+ million over a 2-year period starting in FY 2009 under current law. ADE has consulted with U.S. Department of Education officials on the subject, who indicate that they are unsure whether such a correction involving federal impact aid would violate federal law. If it *would* violate federal law, the budget correction issue would be moot and the bill would not have a fiscal impact on this topic. Otherwise, the bill could be interpreted as foregoing a possible \$10+ million Basic State Aid savings that probably would occur over a 2-year period starting in FY 2009.

Ongoing Deduction

A.R.S. § 15-974(A) requires ADE to deduct a portion of federal impact aid from an accommodation school's Basic State Aid entitlement. ADE stopped making this deduction in FY 2003, however, after concluding (subsequent to a legal challenge) that it violated federal law. The bill would delete the now-unenforced statutory language requiring the deduction. If the deduction were permitted by federal law, it would reduce annual Basic State Aid costs by approximately \$1.5 million.

Local Government Impact

The bill would increase budget limits and eliminate possible state aid reductions for the Fort Huachuca Accommodation District, as described above.